

Message Text

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42

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 4362

UNCLAS SECTION 1 OF 2 TEHRAN 7738

E.O. 11652: N/A

TAGS: BEXP, IR

SUBJ: COUNTRY COMMERCIAL PROGRAM

REF: STATE 210889

1. CONSISTENT WITH MIKLOS LETTER, EMBASSY HAS CONDENSED SECTION

II, CCP AS FOLLOWS:

A. COMMERCIAL OPPORTUNITIES:

(I) THE GNP OF IRAN REACHED \$17.5 BILLION IN 1973 AT CURRENT PRICES AND IS EXPECTED TO GROW ANNUALLY BY ABOUT 20 PERCENT THROUGH THE NEXT FIVE YEARS. FOREIGN EXCHANGE INCOME FROM OIL FOR THE NEXT THREE YEARS IS CONSERVATIVELY ESTIMATED AT WELL OVER \$6 BILLION PER YEAR; NON-OIL EXPORTS SHOULD RISE APPRECIABLY FROM PRESENT \$500 MILLION A YEAR BUT AT A SLOWER RATE THAN OIL. THIS AVAILABILITY OF FOREIGN EXCHANGE, COUPLED WITH A STRONG PROPENSITY TO IMPORT (\$2.6 BILLION IN 1972, NOT COUNTING MILITARY PURCHASES) PRESENTS EXCELLENT OPPORTUNITIES TO INCREASE US EXPORTS TO THE COUNTRY. THE US SHARE OF THE MARKET HAS HELD STEADY AT 21 PER CENT FOR THE LAST THREE YEARS BUT COMPETITION FROM WESTERN AND EASTERN EUROPE, JAPAN, AND OTHER FAR EASTERN COUNTRIES WILL INTENSIFY APPRECIABLY IN THE FUTURE. THE PRINCIPAL CATEGORIES OF IMPORTS FROM THE US HAVE BEEN CEREALS AND FEED GRAINS, VEGETABLE FATS AND OILS, AIRCRAFT AND PARTS, MOTOR VEHICLES AND PARTS, POWER EQUIPMENT, MINING MACHINERY, EARTH MOVING AND CONSTRUCTION ITEMS AND CAPITAL GOODS GENERALLY.

(II) PRICE AND FINANCING TERMS WILL CONTINUE TO BE MAJOR ELEMENTS IN SECURING SALES TO THE IRANIAN MARKET BUT THE US POSITION HAS BEEN VISIBLY IMPROVED FOLLOWING RECENT DOLLAR DEVALUATIONS. ALSO, THE TRADITIONAL AMERICAN REPUTATION FOR ADVANCED TECHNOLOGY AND

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QUALITY STILL PROVIDES AN EDGE OVER THE COMPETITION IN MANY CASES.

EXPORTERS, HOWEVER, SHOULD BEAR IN MIND THAT PARTS, POST-SALES SERVICE AND PARTICULARLY TRAINING OF OPERATION AND MAINTENANCE PERSONNEL IS FAST BECOMING A MAJOR CONSIDERATION IN SKILLS-SHORT IRAN. THE FACTOR WILL BECOME INCREASINGLY IMPORTANT AS COMPETING EXPORTERS FOR OTHER COUNTRIES ARE MAKING TRAINING FACILITIES AVAILABLE AND THEIR GOVERNMENTS SUBSIDIZE AND "ADOPT" VOCATIONAL TRAINING SCHOOLS.

B. COMMERCIAL FACTORS:

(I) DOMESTIC PROGRESS, POLITICAL STABILITY, EXTERNAL STRENGTH AND RESPONSIBILITY CHARACTERIZE IRAN. SOCIAL AND ECONOMIC PROGRESS DURING THE PAST 20 YEARS HAVE PRODUCED A SOLID AND GROWING MIDDLE CLASS AND A PRIVATE SECTOR HEAVILY INVESTING IN DEVELOPMENT. THE CONSEQUENT DISLOCATIONS OF RAPID SOCIAL CHANGE ARE PRESENT BUT IN IRAN ARE NOT EXPECTED TO HAVE SERIOUS DESTABILIZING EFFECTS. IN SUM, THE ATMOSPHERE PRESENTS AN ATTRACTIVE PROSPECT FOR AMERICAN EXPORTERS AND INVESTORS.

(II) RELATIONS BETWEEN THE US AND IRAN ARE EXCELLENT AND BASED ON CLOSE COOPERATION AND MUTUAL GOALS. FOLLOWING EXTENSIVE AMERICAN AID PROGRAMS (TERMINATED IN THE LATE SIXTIES) CLOSE RELATIONS HAVE CONTINUED ON TRADE, INVESTMENT, MILITARY MATTERS, REGIONAL SECURITY AFFAIRS, AND PETROLEUM. CONCOMITANTLY, CULTURAL BONDS HAVE BEEN STRENGTHENED AS TENS OF THOUSANDS OF IRANIANS HAVE BEEN EDUCATED IN THE US AND A GROWING AMERICAN PRESENCE IN THE COUNTRY HAS PRODUCED RISING ADMIRATION AND RESPECT FOR AMERICAN MANAGEMENT, TECHNOLOGICAL ACHIEVEMENT AND WAY OF LIFE.

C. ECONOMIC FACTORS:

(I) THE PETROLEUM INDUSTRY AND ITS SHARPLY RISING REVENUES WILL CONTINUE TO BE THE DOMINANT FACTOR IN THE IRANIAN ECONOMY; BUT, FOLLOWING THE TREND STARTED IN THE SIXTIES, THE COUNTRY IS ALSO EXPECTED TO CONTINUE TO RELY ON FOREIGN BORROWING TO SOME EXTENT TO FINANCE DEVELOPMENT. UTILIZATION OF FOREIGN LOANS ALMOST REACHED \$1 BILLION LAST YEAR AND PROBABLY WILL CONTINUE TO RISE. IN VIEW OF INCREASING OIL REVENUES, THE FIFTH DEVELOPMENT PLAN IS EXPECTED TO BE REVISED UPWARD, BUT THE DEBT SERVICE RATION SHOULD REMAIN WELL BELOW 20 PERCENT.

(II) EXCLUDING OIL EXPORTS, IRAN HAS LONG HAD UNFAVORABLE TRADE BALANCES WITH THE US, EUROPE, AND OTHER INDUSTRIALIZED COUNTRIES. THE COUNTRY'S INDUSTRIAL AND CONSUMER SECTOR IMPORTS HAVE BEEN RISING FOR THE LAST FEW YEARS AND THE IMBALANCE HAS BEEN FURTHER AGGRAVATED BY HEAVY OUTLAYS FOR IMPORTS OF MILITARY HARDWARE AND

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SERVICES. THE UNITED STATES IS IRAN'S CHIEF SUPPLIER, WITH WEST GERMANY, THE UK, AND JAPAN FOLLOWING BEHIND. JAPAN HAS MADE THE MOST DRAMATIC INCREASE IN ITS MARKET SHARE IN THE RECENT PAST, DUE LARGELY TO OFFERINGS OF HIGH QUALITY GOODS AND SERVICES AT COMPETITIVE PRICES, EXCELLENT POST-SALES SERVICE, STRICT COMPLIANCE WITH CONTRACTS, RAPID ADJUSTMENT OF DISPUTES AND COMPLAINTS, AND STRONG GOVERNMENT SUPPORT OF JAPANESE FIRMS IN THE IRANIAN MARKET. THE USSR AND EASTERN EUROPEAN COUNTRIES HAVE ALSO IMPROVED THEIR

POSITION AS TRADERS AND INVESTORS IN IRAN, THANKS TO BILATERAL COMMERCIAL AGREEMENTS.

(III) TO REDUCE ITS IMPORT BILL AND TO DIMINISH ITS RELIANCE ON OIL REARNINGS, IRAN IS ATTEMPTING TO ATTRACT MORE FOREIGN INVESTMENT INTO ITS INDUSTRIAL SECTOR. A LAW TO ATTRACT AND PROTECT FOREIGN CAPITAL IS IN FORCE, WHICH INCLUDES A NUMBER OF INCENTIVES AND GUARANTEES TO THE FOREIGN INVESTORS, SUCH AS DUTY-FREE IMPORTS OF EQUIPMENT AND RAW MATERIALS, TEMPORARY TARIFF PROTECTION, TAX HOLIDAYS, AND PROVISION OF LOCAL CAPITAL. IN ADDITION, SPECIAL JOB-CREATING OR EXPORT-ORIENTED PROJECTS MAY GET SPECIAL INDUCEMENTS, INCLUDING, POSSIBLY, A MAJORITY EQUITY POSITION BY THE FOREIGN VENTURER. AS A MATTER OF POLICY, ALL FOREIGN INVESTMENT MUST BE IN JOINT VENTURES. THE GOVERNMENT RETAINS THE FLEXIBILITY, HOWEVER, TO ALTER CONDITIONS WHEN THE SUPPLY-DEMAND OR PRICE SITUATION SO DEMANDS. THUS, IN ADDITION TO ANNUAL STATEMENTS OF IMPORT POLICY, THE GOI ON OCCASION LIFTS, PARTIALLY OR TOTALLY, IMPORT BANS ON ITEMS THAT LOCAL PRODUCERS MAY BE MAKING IN SUFFICIENT QUANTITY. THE GOVERNMENT, MOREOVER, HAS RECENTLY SHIFTED EMPHASIS FROM IMPORT SUBSTITUTION TO EXPORT ORIENTATION AS A MAJOR CRITERIA IN APPROVAL OF NEW FOREIGN INVESTMENTS.

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ACTION NEA-12

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UNCLAS SECTION 2 OF 2 TEHRAN 7738

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SUBJ: COUNTRY COMMERCIAL PROGRAM

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(IV) AMERICAN PRIVATE INVESTMENT IN IRAN IS THE LARGEST AT PRESENT --ESTIMATED AT \$200 TO \$250 MILLION AT THE END OF 1972 -- AND WILL RISE SUBSTANTIALLY IN THE NEXT FEW YEARS WITH NEW NATURAL GAS AND

PETROCHEMICAL VENTURES.

(V) THE RATIO OF FIXED INVESTMENT TO GNP (PRESENTLY 25 PER CENT) WILL PROBABLY MOVE TO 27 PER CENT BY THE END OF THE FIFTH PLAN (1978). OF THIS OUTLAY ROUGHLY TWO-THIRDS WILL BE IN THE PUBLIC SECTOR WITH INDUSTRY AND MINES (22 PER CENT), HOUSING AND CONSTRUCTION (20 PER CENT), OIL AND GAS (19 PER CENT), INFRASTRUCTURE (19 PER CENT), AND THE REST IN AGRICULTURE, EDUCATION AND SOCIAL SERVICES. THE PLAN IDENTIFIES THE FOLLOWING INDUSTRIES FOR SPECIAL ATTENTION: FOOD, BEVERAGE AND TOBACCO, TEXTILES, FOOTWEAR, PAPER AND CELLULOSE, LEATHER AND HIDES, CHEMICALS, BUILDING MATERIALS, BASIC METALS, MACHINERY, CONSUMER DURABLES, AUTOMOTIVE VEHICLES, AGRICULTURAL MACHINERY, SHIPBUILDING AND REPAIR.

2. OTHER SUGGESTED CHANGES AS FOLLOWS:

PAGE 5:

UNDER "A. GENERAL," LINE THREE: ELININATE "IS NOW UNDER CONSTRUCTION." LINE 5: PLACE COLON AFTER FY '74 AND INSERT: " A TRAINED MARKET RESEARCH ASSISTANT HAS BEEN LOCALLY HIRED AND IS WORKING UNDER THE DIRECTION OF THE TRADE DEVELOPMENT CENTER AND THE COMMERICAL ATTACHE."

AT END OF LAST LINE ON PAGE ADD: "CONSULAR PERSONNEL AND STAFF OF UNCLASSIFIED

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TEHRAN ECONOMIC/COMMERCIAL SECTION WILL SPEND MORE TIME IN FIELD AND ACTIVELY SEEK OUT NEW TRADE AND INVESTMENT OPPORTUNITIES."

PAGE 6.

AFTER FIRST SENTENCE ADD: "MAJOR SECTORS DESIGNATED FOR EXPLOITATION ARE PETROLEUM, MANUFACTURING, MINING, TRANSPORTATION, AND POWER GENERATION AND DISTRIBUTION." ELIMINATE SECOND SENTENCE. AT BOTTOM OF PAGE ADD: "ADDITIONAL SALE OF GOODS AND SERVICES AND MAJOR PROJECTS, PARTICULARLY MINING AND POWER PROJECTS -- COLUMN A -- \$208 MILLION; COLUMN B -- \$350 MILLION."

PAGE 9

"4. BUSINESS CORRESPONDENCE: THE EMBASSY HAS IMPROVED DRAFTING AND SUBSTANTIVE CONTENT OF BUSINESS CORRESPONDENCE. PROMPT ACKNOWLEDGEMENT AND RESPONSIVENESS IS BEING ASSURED BY USE OF PRINTED MATERIAL, STANDARD LANGUAGE, REFERENCE LANGUAGE, AND ENCOURAGEMENT OF USE OF USDOC AND OTHER USG SOURCES. MOREOVER, SUBSTANTIVE INQUIRIES ARE BEING ANSWERED DIRECT BY EMBASSY WHEN INFORMATION IS READILY AVAILABLE AND NO UNDUE AMOUNT OF RESEARCH AND TIME IS INVOLVED."

"5. TRADE OPPORTUNITIES: THE EMBASSY SOME TIME AGO STARTED A NEW APPROACH TO TRADE OPPORTUNITIES BY PARTICIPATING IN PLANNING DISCUSSIONS WITH INVESTMENT BANKS, CERTAIN GOI AGENCIES, AND EVEN SOME LARGE LOCAL PRIVATE CORPORATIONS. THIS APPROACH WILL BE CONTINUED AND EXPANDED, INCLUDING PARTICIPATION BY ALL OFFICERS OF THE ECONOMIC/COMMERCIAL SECTION AND THE CONSULATES. THE SYSTEM SHOULD RESULT IN IDENTIFICATION AND PURSUIT OF MAJOR PTOS AND GOVERNMENT TENDERS."

PAGE 10

OBJECTIVE B, PARA 2, LINE 2: ELIMINATE "IN AN EFFORT;" IN LINE 6,
ELIMINATE "BILLIONS OF DOLLARS;" IN LINE 12, ELIMINATE "IT IS
OBVIOUS THAT" AND SUBSTITUTE "PROBABLY."
OBJECTIVE C, PARA 2, LINE 1: ELIMINATE "EFFORTS TO ENCOURAGE AND
FACILITATE;" LINE 6, ELIMINATE "ON INVESTED CAPITAL;" PENULTIMATE
LINE, ELIMINATE "SOURCES OF."

PAGE 12.

ELIMINATE LAST PARA AND SUBSTITUTE: "THE WHOLE QUESTION OF ENCOUR-
AGING IRANIAN INVESTMENT IN THE UNITED STATES SHOULD BE TREATED
WITH EXTREME CARE. ACCORDING TO IRANIAN LAW, PRIVATE TRANSFERS
OF CAPITAL FROM IRAN ABROAD ARE NOT CURRENTLY AUTHORIZED. THUS,
THE EMBASSY FEELS THAT EFFORTS TO ENCOURAGE IRANIAN INVESTMENT IN
THE UNITED STATES SHOULD BE LIMITED TO OFFICIAL INVESTMENTS THAT
MIGHT BE CONTEMPLATED BY THE NATIONAL IRANIAN OIL COMPANY AND PER-
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HAPS GOVERNMENT AGENCIES OR CORPORATIONS."

PAGE 15.

SUGGEST BEGINNING OF PARA: "THE EMBASSY WILL CONDUCT, UNDER THE
DIRECTION OF THE DCM, PERIODIC REVIEWS. . . ."

3. INASMUCH AS THE FIRST HALF OF FY 1974 IS LAMOST OVER AND THE
CCP IS NOT YET IN FORCE, THE EMBASSY PROPOSES THAT THE FIRST SUCH
REVIEW BE AT TH END OF THE FISCAL YEAR.

4. A TELEGRAM WILL FOLLOW WITHIN THE NEXT FEW DAYS OUTLINING
BRIEFLY THE INDIVIDUAL "CAMPAIGNS" TO BE UNDERTAKEN BY THE EMBASSY
UNDER THE CCP.
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